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PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the Momentive Specialty Chemicals First Quarter 2013 Earnings Conference Call. My name is Steve, and I'll be your operator for today.

At this time, all participants in listen-only mode. We will conduct a question-and-answer sessions towards the end of the conference.

(Operator instructions)

As a reminder, this call is being recorded for replay purposes. And now I would like to turn the call over to John Kompa from Momentive. Please go ahead, sir.

John Kompa - *Momentive Speciality Chemicals - VP -- IR & PA*

Thank you, Steve. Good morning. And welcome to Momentive Specialty Chemicals first quarter 2013 earnings conference call.

With me on today's call will be Craig Morrison, Chairman, President and CEO, Bill Carter, Executive Vice President and Chief Financial Officer, and George Knight, Senior Vice President, Finance and Treasurer.

As a reminder, this call is also being webcast. And the slides referenced in today's conference call are available through the Momentive.com website, under the Investor Relations section of Momentive Specialty Chemicals.

A replay of this call will be available for three weeks. And the replay dial-in information is contained in our latest earnings release.

Before we start, I'd like to review information about forward-looking statements and the use of non-GAAP information as part of this call.

As you know, some of our comments today may include statements about our expectations for the future. Those expectations are subject to known and unknown risks, uncertainties and other factors that may cause the Company's actual results and performance to be materially different from any future results or performance suggested by these expectations. The slides you now see gives you more information on the assumptions and factors we consider when making those forward-looking statements.

We can't guarantee the accuracy of any forecast or estimates. And we undertake no obligation to update any forward-looking statements during the quarter, except as otherwise required by law. For more information on our risk factors, please see our earnings press release and our SEC filings.

In addition, some of our comments may reference non-GAAP financial measures. A reconciliation of the most directly comparable GAAP financial measure and other associated disclosures are contained in our earnings release and on our website.

Our earnings release and our recent SEC filings are also available on the internet at Momentive.com. With that, I'll now turn the call over to Craig Morrison to discuss our quarterly results.

Craig Morrison - *Momentive Specialty Chemicals - President, CEO*

Thanks, John. Turning to page four and an overview of our first quarter 2013 results, revenues were $1.2 billion, roughly flat with the prior year of strong results in our global forest products business were offset by our overall volumes, continued headwinds in Europe, and slower growth in the Asia-Pacific region.

Segment EBITDA totaled $105 million, compared to $146 million in the prior year. North American housing and cash restructuring initiatives, particularly in Europe, continued to drive strong results in our forest products business in the first quarter of 2013. Weakening market conditions in oil field and epoxy product lines account for year-over-year decrease in the EBITDA.

Operating income totaled $45 million in the first quarter of 2013, compared to $44 million. First quarter 2013 operating income reflected lower volumes and slightly higher selling, SG&A and administrative costs, offset by decreased asset impairments, lower business realignment costs, and the positive impact of savings from the shared services agreement with Momentive Performance Materials, Inc.

As we continue to face overall macroeconomic headwinds and volatility in certain end use markets, we continue to aggressively focus on cost actions and cash optimization. We have realized $57 million in savings on a run rate basis from the shared service agreement as of the first quarter of 2013. We were also pursuing an additional $17 million cost savings from both the shared service agreement and additional productivity programs.

Turning to slide five, you can see a brief overview of our financials. As noted, our first quarter 2013 sales decreased 4% due to softer volumes, while segment EBITDA declined 28%, partly offset by the cost actions I mentioned. Operating income improved by 2%, driven by decreased asset impairments and our cost-cutting initiatives.

Turning to slide six and our combined raw material index. You can see that raw materials have generally increased since yearend 2013.

In the first quarter of 2013, we saw year-over-year increases in phenol and methanol of 12% and 11%, respectively, while propylene increased 1%. Urea declined 5% in the first quarter of 2013, versus first quarter of 2012.

We anticipate continued raw material volatility in 2013 as global markets remain mixed. We remain vigilant in our approach to take the appropriate pricing actions.

Turning to slide seven, you can see the impact of our multi-year initiatives to right size our global infrastructure for our forest products resin business. North American housing is by far the largest end use market in the forest products division. Housing starts remain well below their 40-year average, or approximately 1.5 million starts, and the peak exceeding 2 million starts in 2006.

You can see the positive impact of just a small recovery in North American demand on our overall results. Despite this volatility, our forest products business has posted an 18% compounding yield growth rates since 2009.

In addition, in the first quarter of 2013, segment EBITDA increased 20% year-over-year. To drive this growth, we've aggressively managed our global network, particularly in Europe and North American, while also pursuing price actions to drive margin improvement.

As North American housing improves, we expect to see significant upside potential as incremental volumes drive operating leverage and resulting benefits all through to the bottom line.

Turning to slide eight. This page highlights the volatility in oil and gas rig counts over the last few years. Natural gas rig counts, represented by the red line on the graph on the left, is the single largest factor driving the demand for our proppants business, which has significantly impacted EBITDA on a year-over-year basis. However, on an absolute basis, it continues to be a very strong contributor to MSC profitability.

Going forward, there is no doubt that energy will be a major driver in North American economic growth. As was the case with our forest products division, our leading market position in proppants for natural gas wells, expansion into oil drilling, and other product lines lead positions leave MSC nicely positioned as natural gas drilling recovers.

We continue to believe that over the next few years, oil field business unit will deliver record profitability as natural gas drilling inevitably recovers.

Let me now turn the call over to Bill Carter to further discuss our financials.

Bill Carter. Thank you, Craig. Turning to slide 10 in our epoxy, phenolic, and coating resins segment, first quarter 2013 revenue totaled $765 million, decreasing 4% versus prior year, with volume declines negatively impacting sales by 4%. Quarterly segment EBITDA declined by 40% versus the prior year.

Pricing was relatively flat as positive pricing and mix in our phenolic specialty resins business was offset by competitive pricing pressures in our epoxy specialty and oilfield businesses, which negatively impacted segment EBITDA.

We continue to strategically invest in our epoxy business. In addition to the Asia-Pacific regional investments that Craig mentioned, we brought additional water-borne resin capacity online at our [Barbastro], Spain site.

Turning to the next slide. In our forest products resin segment, sales decreased slightly to $427 million, with price mix gains of 5%, offset by volume declines of 1%, scope changes of 6%, and negative currency translation of 1%.

Volume declines primarily reflected site rationalizations in Europe and Asia-Pacific. Productivity gains in favorable product mix drove a 20% year-over-year segment EBITDA increase.

We continue to have a favorable outlook for this segment as we anticipate North American and Latin American volumes to continue to grow in 2013, partially offset by slower demand from Europe.

Regarding our balance sheet, we continue to benefit from a substantial liquidity position with cash plus borrowing availability under our credit facility's $770 million as of the first quarter 2013.

Our capital expenditure investments totaled $27 million in the first quarter 2013. We continue to expect to invest $175 million to $185 million in fiscal year 2013. Our net working capital increased slightly to $539 million at the end of the first quarter of '13, which was still a modest 11%r of sales.

Working capital reflected the normal seasonality, which drove increases in accounts receivable and inventory that we typically experience early in the year.

In 2013, we continue to anticipate net working capital to increase slightly due to moderate volume increases and raw material volatility, partially offsetting continued actions to improve efficiency.

Finally, through our January 2013 $1.1 billion refinancing, we refinanced our credit facility, second lien notes and funded cash to the balance sheet. Additionally, in late March 2013, we entered into a new $400 million asset-backed revolving loan facility, which is subject to a borrowing base.

The ABL facility replaced the Company's senior secured credit facilities. As a result of the $1.1 billion refinancing, we now have no material debt maturities before 2018, and no financial maintenance covenants currently in effect.

Let me now turn the call back to Craig to wrap up.

Craig Morrison - *Momentive Specialty Chemicals - President, CEO*

Thanks, Bill. Turning to slide 14, in summary, first quarter revenues were $1.2 billion, flat with the prior year, as strong results in our global forest products business were offset by lower overall volumes, continued headwinds in Europe, and slower growth in the Asia-Pacific region.

We continue to realize our cost targets as planned, and have achieved $57 million in savings under the shared service agreement with MPM as of March 31, 2013, since the program's inception. We're also pursuing an incremental $17 million in cost savings that we expect to achieve, primarily over the next 12 months.

We continue to demonstrate prudent management of our balance sheet and benefit from our substantial liquidity position with $770 million of cash and available borrowings. As Bill mentioned, we have no material debt materials until 2018, following our $1.1 billion refinancing in January 2013.

Looking ahead, we believe our overall volumes will slowly increase in the second half of 2013. Thank you for your continued interest in the Company. I will now return the call to John.

John Kompa - *Momentive Speciality Chemicals - VP -- IR & PA*

Thanks, Craig. And, Steve, if you'll please open the line for questions and remind callers of those instructions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator instructions). Tariq Hamid, JPMorgan. Please go ahead.

Tariq Hamid - *JPMorgan - Analyst*

Good morning, gentlemen.

John Kompa - *Momentive Speciality Chemicals - VP -- IR & PA*

Hi, Tariq.

Craig Morrison - *Momentive Specialty Chemicals - President, CEO*

Good morning.

Tariq Hamid - *JPMorgan - Analyst*

On the forest products business, obviously strong results in the first quarter. And given the seasonality, that business typically gets better in 2Q, 3Q. Do you think that seasonality should hold through this year? Or are you seeing something different in the business this year in terms of timing?

Craig Morrison - *Momentive Specialty Chemicals - President, CEO*

No. We were just -- I was just at the [Lignant] show, which is the global forest product show in Europe, last week. And I think that seasonality will hold true. I think the market is continuing to pick up momentum. And our customers were very, very positive, particularly in the Americas.

Tariq Hamid - *JPMorgan - Analyst*

And then on the epoxy side, particularly within proppants, rig counts really haven't moved even though gas prices have moved higher. When you talk to your customers, do you get any sense of them looking to maybe build inventories or think about expanding rig counts to take advantage of gas at this point? Or do you think that's more of a longer term discussion?

Craig Morrison - *Momentive Specialty Chemicals - President, CEO*

No. I think we are starting to see some positive momentum in the oilfield segment. You know, if you look at it, for the first time in about 24 months you actually have the inventories for natural gas lower than the five year average. The last 24 months, it's been at peak.

So, the effect of taking the drilling -- the rigs down -- is now having an impact, which is now starting to drive the price, and will ultimately drive rig count improvement -- which I think you'll see in the second half of this year.

Tariq Hamid - *JPMorgan - Analyst*

Got it. Thank you guys very much.

Craig Morrison - *Momentive Specialty Chemicals - President, CEO*

Thank you.

Operator

Adam Goodwin, Goldman Sachs. Please go ahead.

Adam Goodwin - *Goldman Sachs - Analyst*

Hi. Thank you for taking my questions.

Craig Morrison - *Momentive Specialty Chemicals - President, CEO*

Hi, Adam.

Adam Goodwin - *Goldman Sachs - Analyst*

Hi. My first question -- the competitive pricing pressures that you say in the slide deck for the epoxy and oilfield parts of the business -- are there any specific end markets or geographies where those pressures have been a bit more pronounced? Or is it very broad based?

Craig Morrison - *Momentive Specialty Chemicals - President, CEO*

Well, the two separate markets that you mention -- when you look at the base epoxy resins, which are the liquids and the solids, it tends to start in Asia where you have more excess capacity. And then, through imports, starts to affect Europe and North America.

So, it does vary by region. America tends to be more stable out of the regions. Asia being the most volatile, followed by Europe. And then the most stable being the Americas. So, it definitely varies by region.

In oilfield, it's largely a North American business for us. So, when we talk about oilfield and capacity, you're really talking North America because profits are disproportionately used here versus the rest of the world.

Adam Goodwin - *Goldman Sachs - Analyst*

Got it. And when we look at your guidance for volumes being moderately higher in 2013 versus '12, would it be possible for you to parse that further? I mean, do you expect most of that to be driven by forest products? Or would you expect to see some year-over-year growth in epoxy, phenolic and coatings as well for the full year?

Craig Morrison - *Momentive Specialty Chemicals - President, CEO*

Well, I think as you look at it, clearly forest products -- a) because it's disproportionately volumes are driven by that business anyway just because of the number of units that we cell. But I think, also, it's on target to be a significantly more robust year than last year with housing starts most likely going from 750,000 to over 1 million this year, which is being -- the projection is now being pushed further up from where the year started.

I think in oilfield it'll probably be pretty much a flat year. Base epoxy resins probably pretty flat. I think phenolic specialties will be up. And when you look at monomers and dispersions on the acrylic side, I think that'll be pretty flat on a year-over-year basis. So, overall, the biggest driver will be the forest products business.

Adam Goodwin - *Goldman Sachs - Analyst*

Got it. And then my last question -- given the difficult market environment in base epoxies, are you seeing any capacity rationalization among competitors at this point? Or not a whole lot of that?

Craig Morrison - *Momentive Specialty Chemicals - President, CEO*

Well, there's been some that's been discussed. But I wouldn't say it's massive. And we had previously, in the last couple quarters, have taken down the [Westling] which is a relatively small plant for us.

So, I think there is some activity going on around that. But I can't say we've seen a significant impact from it yet.

Adam Goodwin - *Goldman Sachs - Analyst*

Great. Thanks a lot, guys.

Operator

Thank you. Roger Spitz, Bank of America Merrill Lynch. Please go ahead.

Roger Spitz - *Bank of America/Merrill Lynch - Analyst*

Good morning, guys.

Craig Morrison - *Momentive Specialty Chemicals - President, CEO*

Hey, Roger.

Roger Spitz - *Bank of America/Merrill Lynch - Analyst*

I'm not sure you want to do this, but I'll ask. Instead of giving us EBITDA for proppants and base epoxy resins, can you speak to how, perhaps, EBITDA in both those businesses may have changed on a percentage basis year-over-year just to see sort of the magnitude?

Craig Morrison - *Momentive Specialty Chemicals - President, CEO*

As you said, we typically do not give out specific EBITDAs for the businesses in terms of magnitude of change. I know you've asked previously -- kind of -- where do we see the more significant effect. We've seen the more significant effect in the precursors in epoxy's side versus the oilfield side in terms of absolute dollar decline in EBITDA.

Bill Carter - *Momentive Specialty Chemicals Inc. - EVP, CFO*

And if you look at any drop in the epoxy phenolic division, it's all accounted for between the base epoxy resin and the oilfield. And you can think of it as a two-to-one ratio for the quarter -- being twice as much in the base epoxy being driven by that versus the oilfield business.

Roger Spitz - *Bank of America/Merrill Lynch - Analyst*

Okay. That's perfect. And can you speak a little bit about the base epoxy resins and the precursors -- sort of where you see sort of industry market conditions today? I mean, today it sounds like -- from the comments you made earlier -- it sounds like slow, modest growth is working back. Is that a fair characterization as volume sort of grows?

Craig Morrison - *Momentive Specialty Chemicals - President, CEO*

Yes. We're seeing slightly improved. There's another factor also that affected our business that [wasn't] significant, which is we're in the middle of turn-arounds that are bridging the first and second quarter. And that impacted EBITDA by about $10 million last quarter. And we'll have a similar impact in the second quarter. So, that also affected us.

But I think you'll see the market conditions improving as you go into the second quarter, and as you go into the second half of the year -- is our projection for base epoxies.

Roger Spitz - *Bank of America/Merrill Lynch - Analyst*

Okay. And regarding the competitive pressures in epoxy specialties, I'm assuming that doesn't include versatic acid. Just epoxy specialties. And is that from direct competitors or driven by inter-material substitution?

Craig Morrison - *Momentive Specialty Chemicals - President, CEO*

The specialty epoxy is more direct competition, as well as some of the volatility you've seen in the wind energy market at times. But I'd say that's more direct competition. Versatics can be impacted at times by other technologies such as BA.

Roger Spitz - *Bank of America/Merrill Lynch - Analyst*

Okay. And it looks like your Q1 '13 SG&A was around $92 million. I'm wondering is that a new level or are there some extra, more than usual, seasonal items in there? Can you talk about that?

Craig Morrison - *Momentive Specialty Chemicals - President, CEO*

Yes. It in part is just due to inflation offset by productivity. We did have a small impact in terms of some other compensation items that hit the first quarter.

Roger Spitz - *Bank of America/Merrill Lynch - Analyst*

But can we think of this as a somewhat -- maybe not a full higher level -- but a somewhat higher level for the full year?

Craig Morrison - *Momentive Specialty Chemicals - President, CEO*

I would say somewhat higher level -- a slightly higher level.

Roger Spitz - *Bank of America/Merrill Lynch - Analyst*

Okay. And, finally, in forest products, it looks from your commentary that Europe was only modestly soft, if I'm reading that correctly. Meanwhile, we're hearing from European PVC producers -- which also goes into the housing -- and we're seeing very week demand over there.

Can you have any comments on the disparities. Are you going to slightly different markets than, sort of, the PVC guys? I'm not saying you're going into piping. But you're sort of going into housing construction, I would have thought.

Craig Morrison - *Momentive Specialty Chemicals - President, CEO*

Well, it's not as prevalent -- the type of construction in Europe is very different than in the US. They do not use anywhere near the same amount of wood-based products from a forest products standpoint. So, it's not an identical sort of driver as it is here.

The other thing is we've exited major segments such as closing our [loina] plant in Germany of Europe. So we have very selective areas. And some of them are actually quite robust, such as in Russia, which is considered part of our European business.

You know, so, it's not surprising that you might find different correlations between us and some competitors that have different technologies and may also have significantly varied geographies within Europe that they participate in that we don't, or vice versa.

Roger Spitz - *Bank of America/Merrill Lynch - Analyst*

Can I take from that that perhaps in Europe you're sort of bigger on formaldehyde -- merchant for formaldehyde. And the forest product resins that are going into non-OSB -- like furniture and particle board, perhaps -- things like MDF and not into OSB that goes that way into housing. Is that a way to look at it?

Craig Morrison - *Momentive Specialty Chemicals - President, CEO*

Yes. That's a very fair way to look at it. Formaldehyde is a much more significant driver because we have withdrawn out of a lot of the panel board market in Europe because we saw it as a prolonged weakened market. So, that's fair.

So, we don't have the exposure in Europe we used to have or that some of our competitors might have in other technologies.

Roger Spitz - *Bank of America/Merrill Lynch - Analyst*

All right. Thank you very much.

Operator

Thank you. Bill Hoffman, RBC Capital Markets. Please go ahead.

Bill Hoffman - *RBC Capital Markets - Analyst*

Thanks. Good morning

Craig Morrison - *Momentive Specialty Chemicals - President, CEO*

Hi, Bill.

Bill Carter. Good morning.

Bill Hoffman - *RBC Capital Markets - Analyst*

Craig, could you talk a little bit about -- just a little more on the forest product resin side? What are you seeing as far as MDI penetration into your markets and market share wise? And how do you see that? I mean, the MDI guys claim a lot of incremental penetration into the market. And they're just sort of going to get a sense of your percentage share as you come into this cycle.

Craig Morrison - *Momentive Specialty Chemicals - President, CEO*

Yes. We haven't seen any incremental over the last couple of quarters. As some of our raws have decreased, such as urea, we're much more competitive. So, we definitely, over the years, have seen that -- some penetration. But have not really seen that continue. And, in fact, we're looking at a couple cases where it might potentially reverse itself.

Bill Hoffman - *RBC Capital Markets - Analyst*

Okay. You mean -- how quickly can the end market customer shift in that? (inaudible) couple of quarters?

Craig Morrison - *Momentive Specialty Chemicals - President, CEO*

(inaudible) -- with the right support. It's not a massive shift for them to choose one over the other. It's not something they're going to do month-to-month. I mean, if they shift, they're probably planning on keeping it for a period of time -- a year or two at least. But they can make that change fairly quickly.

Bill Hoffman - *RBC Capital Markets - Analyst*

Okay. Thanks. And then you mentioned in the proppants business some incremental penetration more than the oil side of the business. Can you just talk about what those opportunities are? And whether how quickly you can get into that into the market?

Craig Morrison - *Momentive Specialty Chemicals - President, CEO*

Yes. We're getting in quite quickly. We had developed a new product which was a blend of technologies from our silicon quartz division, as well as our epoxy phenolic coating division. And came up with a new product called Oil Plus. And that's been growing dramatically and is -- you know -- exceeding 25% of our volumes now, and continuing to head north. So, it's a very robust, positive development for us that is taking off quite significantly.

So, between further penetration into the oil market, which is a very attractive market to be into, as well as the inevitable rebound in natural gas, medium to long term, this is an extremely attractive space for us.

Bill Hoffman - *RBC Capital Markets - Analyst*

Is that the same level margin profit opportunities as well?

Craig Morrison - *Momentive Specialty Chemicals - President, CEO*

Yes.

Bill Hoffman - *RBC Capital Markets - Analyst*

Okay. And then just a second -- just a look -- here we are in May. I just wondered if you could talk just a little bit about what you've seen in market conditions -- March, April, May -- sort of on a trend basis? You know, you talked a little bit about the volume side of the equation. But I just wondered if you're -- from a margin standpoint -- starting to see some relief there as well?

Craig Morrison - *Momentive Specialty Chemicals - President, CEO*

Yes. I mean, I think as you look at -- like we had said, I think -- the forest products business will be very strong on both the volume and a margin standpoint to continue to improve.

Oilfield, I think, in the second half of the year will start to show some improvement. You know, I think maybe some of it will be seen in the second quarter as well. But I think that will continue to improve. It's just the inevitable taking down of the natural gas rigs. You just run out of product eventually.

You know, the base epoxies, we think it'll be a second half -- end of the second quarter. But base epoxies for us are also being impacted by turnarounds. So I think some of the challenges we've seen in the first quarter we'll see in the second, just as we absorb the costs because those are large plants that are expensive turnarounds for us. Especially the epoxies.

The Versatics, I think, you'll see modest improvement as the year goes on. And on the phenolic side, I think it'll be a fairly good year. We're seeing improvement as we move into the second quarter to disproportionately North American based business and has strong presence in auto and some other attractive segments.

And on the monomers -- the acrylic monomers and dispersion side -- I think it will continue to be a challenge as it's disproportionately European based and has a significant presence in construction in markets like that, which are still challenged in Europe.

Bill Hoffman - *RBC Capital Markets - Analyst*

Thanks. And if I may, final question. You made about $14 million in the joint venture investment in the quarter. I just wondered what the total expectation is for this year?

Craig Morrison - *Momentive Specialty Chemicals - President, CEO*

Yes. We're not giving out guidance for the year on that. That will allow you guys to draw your own conclusions around that.

Bill Hoffman - *RBC Capital Markets - Analyst*

Okay. Thank you.

Operator

Thank you. Brian Chavarria, Credit Suisse. Please go ahead.

Brian Chavarria - *Credit Suisse - Analyst*

Hi, there. I may have missed this. But I guess just in terms of impacts of weather during the first quarter on the forest products side -- how much of an impact that might have had? And how that might flow through into the second quarter?

Craig Morrison - *Momentive Specialty Chemicals - President, CEO*

We don't see a major impact, really, from that. I think it's more driven by housing starts and there's the natural seasonality that tends to occur as weather improves in the second and third quarter for construction. But there's not -- it's not driven by significant weather events. At least this particular quarter. Sometimes it can be when you have a hurricane or something. But more seasonality.

Brian Chavarria - *Credit Suisse - Analyst*

Got you. And then I guess one more going back just the oil proppants here. Have you seen any shift -- and I know with the rate countdown on the natural gas side that's been a big issue. But just in terms of your customers shifting away from resin-coated sands and going to other products, different frack designs, or anything like that that you think may pose an issue going forward? Or I guess, how do you see that market there?

Craig Morrison - *Momentive Specialty Chemicals - President, CEO*

Yes. We think the reason -- there's only one reason they buy resin coated proppants, that's the product works and it makes their returns improve.

There are some marginal wells we've seen go to pure sand, no resin coating on it. And so that does have some impact. But we don't consider that a long term driver because as the economics improve them to drill, they will ultimately use the products that extract the material quickest and maximizes the withdrawal from the wells of the natural gas or the oil and resin coated proppants do that.

In the long term, it'll still be a very robust market. And when you energy and you look at all the investments going in downstream, you know, I think this will be a very attractive market to be in. And we don't see any fundamental shifts there.

Brian Chavarria - *Credit Suisse - Analyst*

Okay. Appreciate it. Thank you.

Craig Morrison - *Momentive Specialty Chemicals - President, CEO*

Thank you.

Operator

Thank you. Brian Lelli, Barclays. Please go ahead.

Brian Lelli - *Barclays Capital - Analyst*

Yes. Good morning, guys. Thanks for the time. Just a really quick question. It sounds like from the work capital front you guys built some inventory. Should we expect that that $539 million level is going to come down through the remainder of the year as we model out cash flows?

Bill Carter - *Momentive Specialty Chemicals Inc. - EVP, CFO*

Yes. What you'll actually see is it will go up a little more in the second quarter. We typically build working capital in the kind of first through second quarters in part because of seasonality, as Craig has mentioned. You'll see it kind of stabilize in Q3. And then you'll see it come down fairly significantly in Q4.

We expect, as I think I talked on the last call, we think overall working capital will be slightly up end of '13 versus end of '12, just being driven by improving economic conditions and volume.

Brian Lelli - *Barclays Capital - Analyst*

Got it. And then on the back of that, just quickly on CapEx. Can you remind us again what the maintenance level is versus the $175 million to $185 million?

Bill Carter - *Momentive Specialty Chemicals Inc. - EVP, CFO*

Yes. We've typically talked about somewhere in the $60 million to $80 million range in terms of maintenance CapEx.

Brian Lelli - *Barclays Capital - Analyst*

Okay. That hasn't changed. And then one last one from me. Just as we think about sort of cash flows appreciating that -- you have a solid liquidity position at this point. Is it fair to say that fixed charges, especially with CapEx in this level, are still in and around -- call it $500 million, $525 million at this point -- you know -- pension funding and some other small items added to $300 million of interest in this CapEx balance?

Bill Carter - *Momentive Specialty Chemicals Inc. - EVP, CFO*

Yes. It is kind of prior guidance. That has not changed our pension. And kind of going back to a question asked earlier, what you're seeing a little bit in SG&A is increased pension charges from the European pension plans we have.

So, that will go up slightly, but not materially.

Brian Lelli - *Barclays Capital - Analyst*

Okay. That's great. Thanks, guys.

Bill Carter - *Momentive Specialty Chemicals Inc. - EVP, CFO*

Thank you.

Operator

Thank you. Jason Weinberg, Columbia Management. Please go ahead.

Jason Weinberg - *Columbia Management - Analyst*

Just a quick question on something that was mentioned on the call with the -- I'm thinking the oil field business will be flat for the year. Could you just expand a little bit on that -- on just the dynamics? Is that from expectations of increasing rig count? Is that increased number of fracks per well? Switching from sand back to resin? Just any detail you could give there?

Craig Morrison - *Momentive Specialty Chemicals - President, CEO*

Well, I think when you talk about a flat year-over-year, if you're referring to total year, you have -- last year as still a very, very strong start to the oilfield business. And you have fall off in the second half of the year, and continuing into the first part of this year.

I think as you look at climbing out this year, you'll start to see some improved economic conditions for the oilfield business, really driven by more natural gas drilling, increased penetration of our Oil Plus product into the actual oil wells, offset, to some extent, by lower margins that we had in the first half of last year.

So, there's a number of different factors going there, some of which offset each other. It's basically a strong first half of last year with a weak second half, and a reverse trend this year, a weaker first half with an increasing strength in the second half.

Jason Weinberg - *Columbia Management - Analyst*

Okay. And then just on your total proppants business. What, just roughly speaking, what percent makeup of that is the -- I know you've seen some great growth in that Oil Plus product. So just over the oilfield proppants versus on the gas side?

Craig Morrison - *Momentive Specialty Chemicals - President, CEO*

Yes. We're over 25% now in terms of oil based product versus natural gas.

Jason Weinberg - *Columbia Management - Analyst*

Okay. Great. Thank you.

Operator

Thank you. [Phil Berbera], Royal Bank of Scotland. Please go ahead.

Phil Berbera - *Royal Bank of Scotland - Analyst*

Hey. Good morning.

Craig Morrison - *Momentive Specialty Chemicals - President, CEO*

Good morning, Phil.

Phil Berbera - *Royal Bank of Scotland - Analyst*

Just back to the proppants business, I'm just trying to understand how the volumes have moved versus, say, a year ago -- or the first half, as you put it, versus today. And also how much of that decline that you saw in the EBITDA was just really pricing margin related?

Craig Morrison - *Momentive Specialty Chemicals - President, CEO*

Yes. I mean, there's a couple of factors going on. You know, if you actually look at the actual physical volume out the door, it's flat with last year. So, the decline is largely driven in margin and mix.

And a little bit unusual is EP, which is one of our big customers. We also handle all of their sand requirements. So that's the mix shift you see, which is -- in other words, we not only ship resin based proppants but we ship just regular sand to them.

So, really, the primary driver you should think of is a mix impact. But there's also just a margin decline that's gone on as excess capacity has naturally existed as natural gas drilling has fallen off significantly. So, it really is margin driven.

Phil Berbera - *Royal Bank of Scotland - Analyst*

And do you think if natural gas drilling comes back that you'll be able to capture some of that margin back again? Or do you think that margins are probably going to still remain relatively flat with the way they are currently?

Craig Morrison - *Momentive Specialty Chemicals - President, CEO*

No, I think we'll be able to regain some of it. I don't know if it'll get back to the deep periods of a year, year-and-a-half ago. But I think you will have improved margin off of what you see right now.

Bill Carter - *Momentive Specialty Chemicals Inc. - EVP, CFO*

I think as Craig has stated, certainly, resin coated proppant versus a raw sand increases the productivity of the well substantially. So, as demand returns and there's a greater interest in great production, I think there's a natural migration to resin coat.

Phil Berbera - *Royal Bank of Scotland - Analyst*

Okay. And just -- is there a difference in the profitability of a proppant used in natural gas drilling versus drilling for crude oil? Or is there really not much of a difference?

Craig Morrison - *Momentive Specialty Chemicals - President, CEO*

You can think of them as roughly the same.

Phil Berbera - *Royal Bank of Scotland - Analyst*

Okay. All right. That's all for me. Thanks.

Craig Morrison - *Momentive Specialty Chemicals - President, CEO*

Thank you.

Operator

There are no further questions. And now I would like to turn the call over to Craig Morrison for closing remarks.

Craig Morrison - *Momentive Specialty Chemicals - President, CEO*

Well, we'd just like to thank everybody for your participation this quarter and your interest in the Company. And we look forward to updating you next quarter. So, thank you very much.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Good day.